

Message Text

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ORIGIN NEA-10

INFO OCT-01 AID-05 CIAE-00 COME-00 EB-07 FRB-03 INR-07

NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02 CIEP-01

OMB-01 NSC-05 SS-15 STR-04 CEA-01 L-03 H-02 INT-05

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DRAFTED BY NEA/EGY:GGBROWN:PM

APPROVED BY NEA:SSOBER

E:RPOATS

L/NEA:BKHUFFMAN

OPIC/ID - CARL H MIDDLETON

S/S:FVORTIZ

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R 272318Z AUG 75

FM SECSTATE WASHDC

TO USDEL ALEXANDRIA

INFO AMEMBASSY CAIRO

CONFIDENTIAL STATE 204712

E.O. 11652: GDS

TAGS: EMIN, ECON

SUBJECT: ABU TARTUR PROJECT

REF: (A) ALEXANDRIA 0058 (B) CAIRO 7728

1. WE WOULD BE PLEASED TO BE RESPONSIVE TO FOREIGN MINISTER FAHMY'S INTEREST IN HAVING A U.S. FIRM PARTICIPATE IN ABU TARTUR PROJECT BUT WE THINK U.S. COMPANIES WOULD BE SKEPTICAL OF PROJECT UNLESS EGYPTIANS HAVE RE-THOUGHT THEIR IDEAS ON FRAMEWORK FOR PRIVATE FOREIGN PARTICIPATION IN THIS PROJECT.

2. IN APRIL, IN PREPARATION FOR SECRETARY ROBINSON'S TRIP TO EGYPT, POATS TELEPHONED DR. W. L. GARMAN,
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PRESIDENT OF OCCIDENTAL CHEMICAL CORP., TO DETERMINE WHAT FACTORS CAUSED OCCIDENTAL TO ABANDON ITS INTEREST IN PHOSPHATE AND OTHER MINING VENTURES IN EGYPT.

3. OCCIDENTAL SENT A TEAM TO EGYPT LAST WINTER IN RESPONSE TO INDICATIONS FROM THE GOE AND THE STATE DEPARTMENT THAT EGYPT HAD ADOPTED AN QUOTE OPEN DOOR UNQUOTE APPROACH TO PRIVATE FOREIGN INVESTMENT AND EAGERLY SOUGHT U.S. TECHNOLOGY FOR ITS PUBLIC AND PRIVATE SECTOR DEVELOPMENT PLANS.

DR. GARMAN SAID THE TEAM FOUND THAT THE EGYPTIANS WERE TOTALLY UNREALISTIC IN THEIR THINKING ABOUT THE PROFIT INCENTIVES REQUIRED TO ATTRACT AMERICAN COMPANIES. ALL MINING PROJECTS WERE TO BE CONFINED TO THE PUBLIC SECTOR, WHICH MEANT OPERATING AS A CONTRACTOR UNDER THE LABOR RULES AND LOCAL WAGE RESTRICTIONS OF EGYPTIAN PUBLIC CORPORATIONS. OCCIDENTAL'S EXAMINATION OF THE FINANCIAL PERFORMANCE (LITTLE OR NO PROFITS), FEATHER-BEDDING, AND HIGH LABOR TURNOVER OF THE EXISTING EGYPTIAN NATIONAL PHOSPHATE COMPANIES DISCOURAGED ANY HOPE OF A PROFITABLE OPERATION. HE SAID THERE WOULD BE NO ASSURANCE OF FREEDOM TO ACHIEVE HIGH VOLUME-LOW COST PRODUCTION.

4. HE SAID OCCIDENTAL WOULD BE INTERESTED IN A PRODUCTION SHARING ARRANGEMENT ONLY IF GIVEN FREEDOM TO OPERATE OUTSIDE THE EXISTING PUBLIC MINING CORPORATION. OCCIDENTAL WOULD NOT WANT TO PROVIDE A GUARANTY OF A LARGE ARAB LOAN TO A PROJECT. OCCIDENTAL WOULD WANT A SUBSTANTIAL RETURN ON ITS EQUITY OR QUASI-EQUITY AND ITS TECHNOLOGY AND MANAGEMENT CONTRIBUTION, WHICH COULD BE ASSURED ONLY IF THE MINE AND RELATED TRANSPORT SYSTEM WERE EFFICIENT.

5. HE DOUBTED THAT MANY U.S. COMPANIES WOULD GO INTO EGYPT AS EITHER CONVENTIONAL OR CONTRACTUAL INVESTORS UNLESS EGYPT DECIDED TO PERMIT THEM TO PUT EFFICIENCY AND PROFIT AHEAD OF ITS GOALS OF MAXIMIZING EMPLOYMENT AND SUPPRESSING WAGE-INCREASES.

6. WE NOTE FROM EMBASSY'S PRELIMINARY REPORT ON NEW LAWS PASSED BY PEOPLE'S ASSEMBLY (REFTEL B) THAT SOME OF THESE PROBLEMS WERE ADDRESSED IN NEW LAWS AND MIGHT HAVE CONFIDENTIAL

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BEEN CORRECTED. WHEN NEW LAWS ARE AVAILABLE, AND WE HOPE EMBASSY CAN OBTAIN AN ADVANCE COPY, EMBASSY SHOULD CONSIDER HIRING AN EGYPTIAN LAWYER FOR PURPOSES OF ANALYZING THE LAWS TO SEE SPECIFICALLY WHAT EFFECTS THESE CHANGES WOULD PROVIDE FOR FOREIGN INVESTORS. WE WOULD ENVISAGE A SHORT LEGAL CONTRACT FOR THIS JOB. THIS LEGAL ANALYSIS WOULD BE HELPFUL FOR THIS PARTICULAR PROJECT AND WOULD ALSO BE VERY USEFUL FOR INCLUSION IN THE MATERIALS WE ARE ATTEMPTING TO PREPARE FOR VISIT OF THE AMERICANS ON THE JOINT BUSINESS COUNCIL. WOULD APPRECIATE EMBASSY'S COMMENTS ON THIS IDEA.

7. IF FAHMY RAISES THE ISSUE AGAIN, YOU MAY WISH TO GO

OVER THE PROBLEMS THAT PREVIOUS INVESTORS SAW ON THIS PROJECT AND INDICATE THAT EMBASSY IS AWAITING THE TEXT OF THE NEW LAWS TO ASCERTAIN WHAT EFFECT THEY WOULD HAVE ON INVESTMENT INTEREST ON THIS PROJECT.

8. IF EMBASSY KNOWS OF OTHER COMPANIES INTERESTED IN THIS PROJECT, DEPARTMENT WOULD BE PREPARED TO FOLLOW UP WITH THEIR HOME OFFICES IF EMBASSY THOUGHT SUCH ACTION WAS APPROPRIATE.

9. WE CONTACTED RALPH M. PARSONS INC., AND THEY DESCRIBED THE EFFORTS THEY MADE THIS LAST JULY DURING TRIP TO EGYPT TO OUTLINE A PROPOSAL WITH JACOBS ENGINEERING TO CONSTRUCT AND OPERATE A MINING AND REFINING FACILITY AT ABU TARTUR. WHEN PARSON'S REPRESENTATIVES PRESENTED PROPOSAL TO APPROPRIATE GENERAL EGYPTIAN AUTHORITY FOR MINING PROJECTS, EGYPTIAN OFFICIALS INDICATED THAT THEY APPRECIATED PARSONS/JACOBS PRESENTATION BUT THAT THEY WERE ALREADY IN BUSINESS WITH SOVIETS ON THIS PARTICULAR PROJECT AND THE DOOR WAS CLOSED TO ANY FURTHER CONSIDERATION.

10. IN LIGHT OF THE ABOVE, WE WOULD APPRECIATE ANY FURTHER INDICATION THAT FAHMY BELIEVES GOE REALLY RECONSIDERING SOVIET PARTICIPATION OR THIS IS JUST A FAHMY PERSONAL OPINION. IF POSSIBLE WE WOULD APPRECIATE ANY COMMENTS ON THIS QUESTION BY SEPTEMBER 3 WHEN PARSONS REPS WILL BE VISITING DEPARTMENT FOR DISCUSSIONS ON THIS SUBJECT.

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